

**THE YUKON  
CONSOLIDATED GOLD CORPORATION  
LIMITED**

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**ANNUAL REPORT  
TO THE SHAREHOLDERS**

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**1969**

# THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

## *Head Office*

Royal Trust Tower, Bentall Centre, 555 Burrard Street,  
Vancouver 118, B.C., Canada

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## BOARD OF DIRECTORS

W. A. ARBUCKLE, C.A.

J. G. S. GAMMELL, M.B.E., C.A.

W. J. R. GOVETT

NEIL B. IVORY

C. L. LAROCK, F.C.I.S.

C. E. McLEOD, Q.C.

J. WEATHERALL

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## OFFICERS

W. A. ARBUCKLE  
President

NEIL B. IVORY  
Vice-President

R. HALLER  
Secretary

C. L. LAROCK  
Treasurer

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### *Canadian Registrar and Transfer Agent*

THE ROYAL TRUST COMPANY,  
Royal Trust Tower, Bentall Centre,  
555 Burrard Street, Vancouver 118, B.C.  
119 Adelaide Street West, Toronto 116, Ontario

### *London Transfer Committee*

EDWARD HENRY BROWN  
JOHN REGINALD FRANCIS-SMITH  
JOHN DESMOND PEEK-BRIGGS

### *Secretary, London Transfer Committee*

LESLIE ARTHUR BRODER  
6 St. James's Square, London, S.W.1

### *London Registrar and Registered Office in Great Britain*

CENTRAL REGISTRATION LIMITED,  
Austral House, Basinghall Avenue, London, E.C.2



# THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

## REPORT OF THE DIRECTORS

Your Directors have pleasure in submitting the Financial Statements of this Corporation covering the year ended 31st December, 1969, duly audited by Messrs. Price Waterhouse & Co., Chartered Accountants.

### Statement of Profit and Loss

Profit on operations for the year after all expenses but before taxes amounted to \$136,806 compared with a loss of \$2,307 for 1968. After allowing for a profit on sale of securities of \$88,612, the profit for the year after taxes was \$181,932 against a loss of \$3,340 for the preceding year.

This improvement reflects the profitable employment of our cash resources in the short-term money market.

### Balance Sheet

Cash on hand and guaranteed investment certificates totalled \$2,856,965 as compared with \$394,428 at the end of 1968. This large addition to the Corporation's cash resources arose from the Common Stock Rights Issue which was made in the Spring of 1969.

Investments at cost, \$660,578, had a market value of \$1,134,370 including the Quintus Leaseholds Limited holding at a cost of \$238,900 which has been valued by the Directors at \$725,870. Reference to Quintus is made later in this Report.

The main item on the Balance Sheet is, of course, the holding of 1,080,000 Lornex Mining Corporation Ltd. ("Lornex") shares shown at a cost of \$2,792,500 with a market valuation as at 31st December, 1969, of \$12,290,400.

The substantial liquid working capital is being held against our commitment to finance to the extent of \$2,360,000 the Lornex property in British Columbia and possibly an additional investment therein.

Recent developments affecting Lornex are outlined below.

### Lornex Mining Corporation Ltd.

On 22nd December, 1969, it was announced that formal contracts had been signed for the financing of the Lornex mine in British Columbia and the sale for twelve years of the entire production of copper concentrates. The total estimated cost of bringing the mine into production, including \$10.2 million spent to the end of 1969, is \$123.6 million. Design capacity is 38,000 tons of ore per day and annual output is estimated at approximately 162,000 short tons of copper concentrate and 2.5 million pounds of contained molybdenum in concentrate. This means Lornex when in operation will be the largest copper mine in Canada.

The following were the formal contracts signed:

A sales contract between Lornex and nine Japanese companies for the sale of the entire production of copper concentrates for a term of twelve years.

A loan agreement between Lornex and the Japanese companies to purchase 150,000 common shares and notes of Lornex in the principal amount of \$26.5 million (U.S.) secured by second mortgage bonds.

Both the sales contract and loan agreement are subject to Japanese Government approval which it is hoped will be forthcoming shortly.

An agreement between Lornex and three Canadian banks, Canadian Imperial Bank of Commerce, The Toronto-Dominion Bank and Bank of Montreal, for advances of \$60 million (Cdn.) secured by first mortgage bonds.

An agreement between Lornex and Rio Algom Mines Limited ("Rio Algom") and Yukon for the sale of units of unsecured income debentures and Lornex shares for \$23.6 million in total, of which 10% will be subscribed by Yukon and 90% by Rio Algom.

A construction and management agreement between Lornex and Rio Algom under which Rio Algom has agreed to assume responsibility for the construction of the Lornex project and to supervise and manage the business and operations of Lornex during construction and thereafter for a period of



at least fifteen years from 1st December, 1969, and on behalf of Lornex will incur all construction period costs and operating costs during the first two years following commencement of commercial production. Rio Algom's obligation to do work or incur further expenses without being reimbursed in cash is suspended if construction period costs incurred exceed by \$20,000,000 the amount for which Rio Algom has been reimbursed in cash, or, in the alternative, if construction period costs, together with operating costs in the aggregate exceed by \$30,000,000 the amount for which Rio Algom has been reimbursed in cash until Rio Algom is satisfied that it will be reimbursed in cash by Lornex for such work or expenses. If the funds available to Lornex after payment of its primary obligations are insufficient to reimburse Rio Algom for construction and operating costs, Rio Algom may elect to postpone payment until after repayment of all amounts owing under the bank loan agreement, Japanese financing agreement and income debenture indenture or accept in lieu of payment units of income debentures of Lornex in principal amount equal to the amount owing and Class A shares of Lornex.

Each unit issued to Rio Algom in lieu of repayment will consist of 40 Class "A" shares of Lornex and income debentures in principal amount of \$1,000 except when units are issued in respect of increased expenditures resulting from force majeure or a modification of the Lornex project approved by the Directors of Lornex in which event Rio Algom will receive 80 Class "A" shares with each \$1,000 principal amount of income debentures accepted.

Rio Algom will receive a management fee of \$250,000 per year commencing 1st January, 1969.

Pursuant to a construction and management participation agreement dated as of 1st December, 1969, between Rio Algom and Yukon, Rio Algom has agreed to sell to Yukon and Yukon has agreed to purchase from Rio Algom 17.5% of all units of income debentures and Class "A" shares of Lornex that Rio Algom may from time to time accept in lieu of reimbursement in cash under the construction and management agreement. In addition, Yukon has been granted the option, exercisable in whole but not in part on each purchase date, to purchase an additional 10% of such units. The purchase price of each unit will be \$1,000. Failure by Yukon to take up the full 10% on any purchase date terminates the option with respect to all subsequent purchase dates.

Yukon has entered into an agreement dated 23rd February, 1970, with Woodford Investments Ltd. ("Woodford") of Montreal whereunder, in consideration of Woodford guaranteeing the stand-by credit established in respect of the construction and management participation agreement, Yukon has agreed to sell to Woodford and Woodford has agreed to purchase from Yukon, at Yukon's per unit cost, all the income debentures and certain of the Class "A" shares of Lornex which Yukon is required from time to time to purchase from Rio Algom under that agreement. In addition, Woodford has the right to require Yukon on any purchase date to exercise the option granted to Yukon under the construction and management participation agreement on Woodford's behalf to the extent that Yukon does not elect to exercise the option on its own behalf. Once any part of the option is exercised on behalf of Woodford, Woodford has the right in respect of each subsequent purchase date to require Yukon to exercise the option in whole but not in part on Woodford's behalf. Failure by Woodford to require Yukon to exercise such right on any subsequent purchase date restores the parties to the position obtaining prior to the first purchase date.

Woodford will reimburse Yukon for the amount of the stand-by fee required during the currency of the stand-by credit and will pay the interest charges payable in respect of draw-downs against the stand-by credit. While it is not presently contemplated that any draw-down will be made against the stand-by credit, it will be available to Woodford for the purposes of this agreement.

Yukon will hold in trust for Woodford all income debentures comprised in units purchased by Yukon on each purchase date (other than those purchased by Yukon on its own behalf under the option) and will transfer to Woodford on each purchase date the appropriate percentage(s) of the Class "A" shares of Lornex comprised in such units determined in accordance with the following table, the percentage(s) to be the percentage(s) set opposite the appropriate range(s) of units (representing the aggregate number of units issued by Lornex on such purchase date and on all prior purchase dates) within which fall the units issued on such purchase date, namely:

<u>Ranges of Aggregate Number of Units Issued by Lornex</u>	<u>Percentage</u>
the first 6,000 or less . . . . .	93.75%
the next 1,000 (i.e., 6,001 to 7,000) . . . . .	92.50%
the next 1,000 (i.e., 7,001 to 8,000) . . . . .	91.25%
the next 1,000 (i.e., 8,001 to 9,000) . . . . .	90.00%
the next 1,000 (i.e., 9,001 to 10,000) . . . . .	88.75%
the excess over 10,000 . . . . .	87.50%

When Yukon purchases \$2,360,000 of Lornex income debentures and shares, its current 24% interest in Lornex will decrease to fractionally under 20%.



In order to finance the Lornex project to the time that construction begins, Yukon and Rio Algom have agreed to advance, including amounts already advanced, up to \$600,000 and \$5,400,000 respectively to Lornex on a demand loan basis. Repayment will be made from the first proceeds received by Lornex from the sale of income debentures to Yukon and Rio Algom.

As soon as Japanese government approval has been received of those agreements signed by the Japanese parties, construction will begin. To prepare for construction, definitive engineering for the concentrator and related facilities was begun several months ago and detailed planning for the pit and townsite was accelerated. Some of the progress made to date is as follows:

A contract was awarded to Stearns-Roger Corporation of Denver, Colorado, to carry out design and detailed engineering and construction of the concentrator and related facilities.

Location studies for the water pipeline, tailings area, electrical transmission and access roads have now been completed. Basic design of piping, instrumentation, office, warehouse and shops is well advanced.

Discussions with the British Columbia Government departments proceeded smoothly during the year and have contributed significantly to the progress to date with respect to title and surface rights, tailings and water rights.

Negotiations are in progress with the railways and Vancouver harbour terminals with regard to the transportation and handling of the copper concentrates.

Close liaison has been sustained with other mining companies in the Highland Valley area and an agreement has been entered into with Bethlehem Copper Company, Limited with respect to joint use of tailings disposal and water supply systems.

Selection of equipment which has a long delivery period has been made.

Studies are going forward on the selection and planning of a community to accommodate Lornex personnel and families. It is particularly important to the success of the venture that adequate housing be made available to attract experienced people for permanent location.

Negotiations are proceeding with banks and other lenders as well as Central Mortgage and Housing Corporation for the arranging of mortgage loans for the employees' housing facilities.

Key staff has been assembled.

A labour agreement was signed with the Steelworkers Union and ratified by the Union.

Discussions are taking place to arrange for the sale of molybdenum concentrates to be produced by the mine.

Production is expected to begin in 1972.

Yukon shareholders desiring a copy of the Lornex Annual Report covering the fifteen months to 31st December, 1969, and the related Information Circular should apply to The Royal Trust Company, P.O. Box 2031, Vancouver 118, B.C., or Central Registration Limited, Austral House, Basinghall Avenue, London, E.C. 2, England.

### **Quintus Leaseholds Limited**

The above Company, in which Yukon owns \$1,255,000 par value of redeemable bonds (of which 40% has already been repaid) and 48.17% of the equity, is participating in the development of a Viking oil pool in the Plato Area of South West Saskatchewan. At the date of this Report some seventeen wells are producing on Quintus' interests and Quintus' net share is six wells plus some small overriding royalties with an estimated aggregate daily net production of 180 barrels.

Drilling activity during the year was less than anticipated but it is expected will be resumed shortly.

In addition, Quintus receives revenues from its original investment in the two half-sections in the Pembina Field in Alberta.

### **Klondike, Yukon Territory**

Towards the close of the year the venerable Gold Room at Bear Creek through which our dredges' gold production had been processed for many years, was sold to the National Historic Sites Service, Department of Indian Affairs and Northern Development. About the same time your Directors offered to donate Dredge No. 4 on Bonanza Creek to the Department with the thought that this Dredge, if partially restored, would prove an additional tourist attraction in the northern end of the Territory.

### **Directorate**

The present members of the Board, namely, W. A. Arbuckle, J. G. S. Gammell, W. J. R. Govett, Neil B. Ivory, C. L. Larock, C. E. McLeod and J. Weatherall being eligible, offer themselves for re-election.

### **Annual Meeting**

The Annual Meeting has been called for 8th May, 1970, when any additional information available on the Lornex project, or on Quintus, will be made known to the Shareholders.

On behalf of the Board  
W. A. ARBUCKLE,  
President.

# THE YUKON CONSOLIDATED

## BALANCE SHEET AS A

### ASSETS

	1969	1968
<b>CURRENT ASSETS:</b>		
Cash . . . . .	\$ 7,001	\$ 24,428
Guaranteed investment certificates . . . . .	2,849,964	370,000
Investments, at cost (market value 1969 — \$1,134,370; 1968 — \$958,071)	660,578	875,579
Accrued interest . . . . .	24,809	13,647
Sundry debtors . . . . .	6,008	6,300
Inventory of stores and supplies . . . . .	1	1
	<u>3,548,361</u>	<u>1,289,955</u>
<b>LORNEX MINING CORPORATION LTD:</b>		
Investment, at cost (market value 1969 — \$12,290,400; 1968 — \$12,150,000) . . . . .	2,792,500	2,792,500
Advances, plus accrued interest . . . . .	307,346	—
	<u>3,099,846</u>	<u>2,792,500</u>
<b>SPECIAL REFUNDABLE CORPORATION TAX. . . . .</b>	<u>—</u>	<u>5,804</u>
<b>CLAIMS AND LEASE RENEWAL FEES PAID IN ADVANCE . . .</b>	<u>11,750</u>	<u>—</u>
<b>PROPERTIES AND EQUIPMENT, at written down value . . . . .</b>	<u>1</u>	<u>1</u>
<b>LAND, at cost. . . . .</b>	<u>1,583</u>	<u>—</u>
 <i>Approved on behalf of the Board:</i> W. A. ARBUCKLE, <i>Director</i> NEIL B. IVORY, <i>Director</i>		
	<u>\$6,661,541</u>	<u>\$4,088,260</u>



# OLD CORPORATION LIMITED

1ST DECEMBER, 1969

## LIABILITIES

	1969	1968
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses . . . . .	\$ 25,057	\$ 36,183
Income taxes payable (estimated) . . . . .	31,068	—
Unclaimed dividends . . . . .	5,691	5,694
	<u>61,816</u>	<u>41,877</u>

## SHAREHOLDERS' EQUITY

### SHARE CAPITAL:

3% Non-cumulative redeemable preferred shares of \$1 each —			
Authorized — . . . . .	3,000,000 shares	\$3,000,000	
	<u>                    </u>	<u>                    </u>	
Common shares of \$1 each —			
Authorized — . . . . .	8,000,000 shares	\$8,000,000	
	<u>                    </u>	<u>                    </u>	
Issued at beginning of year —	5,955,155 shares	5,955,155	5,955,155
Issued during year —			
For cash . . . . .	1,191,031 shares	1,191,031	—
In exchange for security of former subsidiary company . . . . .	16 shares	16	—
	<u>1,191,047 shares</u>	<u>1,191,047</u>	
Issued at end of year . . . . .	<u>7,146,202 shares</u>	<u>7,146,202</u>	<u>5,955,155</u>
Reserved for issue, in exchange for securities of former subsidiary companies, etc. . . . .		44,300	44,316
		<u>7,190,502</u>	<u>5,999,471</u>
DEFICIT, per statement attached. . . . .		590,777	1,953,088
		<u>6,599,725</u>	<u>4,046,383</u>
		<u>\$6,661,541</u>	<u>\$4,088,260</u>

# THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

## STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST DECEMBER, 1969

	1969	1968
REVENUE:		
Royalties from lays . . . . .	\$ 10,763	\$ 21,060
Interest on investments, etc.. . . . .	203,674	48,644
Miscellaneous . . . . .	1,160	4,760
	<u>215,597</u>	<u>74,464</u>
EXPENSES:		
Claims renewal and exploration costs . . . . .	327	1,051
General expenses —		
Head office . . . . .	30,487	31,576
Dawson office . . . . .	25,289	24,581
London office . . . . .	6,539	5,401
Directors' remuneration. . . . .	12,875	12,278
Travelling expenses. . . . .	3,274	1,884
	<u>78,791</u>	<u>76,771</u>
PROFIT (LOSS) ON OPERATIONS . . . . .	136,806	(2,307)
Profit (loss) on sale of securities . . . . .	88,612	(1,033)
	<u>225,418</u>	<u>(3,340)</u>
PROFIT (LOSS) FOR THE YEAR BEFORE INCOME TAXES . . . . .	225,418	(3,340)
Estimated income taxes. . . . .	43,486	—
	<u>181,932</u>	<u>(3,340)</u>
NET PROFIT (LOSS) FOR THE YEAR. . . . .	\$ 181,932	\$ (3,340)



# THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

## STATEMENT OF DEFICIT FOR THE YEAR ENDED 31ST DECEMBER, 1969

	1969	1968
Deficit at beginning of year . . . . .	\$1,953,088	\$2,093,381
Deduct: Net profit on disposal of fixed assets and supplies . . . . .	31,869	143,633
	<u>1,921,219</u>	<u>1,949,748</u>
(Profit) Loss for the year . . . . .	(181,932)	3,340
	<u>1,739,287</u>	<u>1,953,088</u>
Deduct: Transferred from contributed surplus. . . . .	1,148,510	—
Deficit at end of year. . . . .	<u><u>\$ 590,777</u></u>	<u><u>\$1,953,088</u></u>

## STATEMENT OF CONTRIBUTED SURPLUS FOR THE YEAR ENDED 31ST DECEMBER, 1969

	1969	1968
Premium received on issuance of 1,191,031 Common shares of Capital Stock	\$1,205,295	\$ —
Deduct:		
Commissions and expenses of subscription rights issue . . . . .	56,785	—
	<u>1,148,510</u>	<u>—</u>
Transferred to deficit. . . . .	1,148,510	—
	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>

# THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

## STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31ST DECEMBER, 1969

	1969	1968
<b>SOURCE:</b>		
Net proceeds of issuance of 1,191,031 Common shares of Capital Stock	\$2,339,541	\$ —
Net profit on disposal of fixed assets and supplies . . . . .	31,869	143,633
Reduction in Special Refundable Corporation Tax and other assets .	5,804	2,315
Net Profit (Loss) for the year . . . . .	181,932	(3,340)
	<u>2,559,146</u>	<u>142,608</u>
<b>APPLICATION:</b>		
Advances to Lornex Mining Corporation Ltd. plus accrued interest .	307,346	—
Claims and lease rentals paid in advance . . . . .	11,750	—
Purchase of land. . . . .	1,583	—
	<u>320,679</u>	<u>—</u>
<b>NET INCREASE IN WORKING CAPITAL . . . . .</b>	<u><u>\$2,238,467</u></u>	<u><u>\$ 142,608</u></u>

### NOTE TO FINANCIAL STATEMENTS 31ST DECEMBER, 1969

The Company has entered into certain agreements in connection with the financing and the supplementary financing, if required, of the Lornex project, the effects of which are as follows:

1. The Company will purchase from Lornex 2,360 units, each unit consisting of a \$1,000 unsecured income debenture and 80 Common shares of Lornex, for a total cost of \$2,360,000.
2. The Company will advance, including amounts already advanced, up to \$600,000 on a demand loan basis, to finance the Lornex project to the time that construction begins, repayment to be made from the first proceeds received by Lornex from the sale of income debentures.
3. With respect to the supplementary financing, if required, the Company:
  - (a) will purchase from Rio Algom income debentures and Class A shares of Lornex for an aggregate expenditure not to exceed \$5,250,000 and has been granted the option to purchase from Rio Algom additional income debentures and Class A shares;
  - (b) will sell to Woodford Investments Ltd. such income debentures and certain of such Class A shares purchased from Rio Algom and, under certain specified circumstances, has granted to Woodford the option to purchase such additional income debentures and certain of such additional Class A shares which the Company may acquire by way of option from Rio Algom.

The Company's obligation to purchase from Rio Algom the income debentures and Class A shares of Lornex for an aggregate expenditure not to exceed \$5,250,000 has been guaranteed through the establishment of a stand-by credit with a Canadian Chartered bank. Woodford has undertaken to guarantee to the bank any moneys furnished to the Company for the aforementioned purpose and to reimburse the Company for the amount of the stand-by fee required during the currency of the stand-by credit.



# THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

## AUDITORS' REPORT

To the Shareholders,  
THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED:

We have examined the balance sheet of The Yukon Consolidated Gold Corporation Limited as at 31st December 1969 and the statements of profit and loss, deficit, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements are properly drawn up so as to present fairly the financial position of the company as at 31st December 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.,  
Chartered Accountants.

Vancouver, B.C.  
11th March, 1970.

